



HOTEL & LEISURE ADVISORS

Hotel Property Condition Assessments: The Basics

By: Eric B. Hansen, AIA, ISHC

As owners face mounting financial challenges in the months ahead, we anticipate that more and more distressed hospitality properties will be changing hands. There is a prevalent need for lenders, attorneys, receivers, and brokers to understand not only the economic and income producing characteristics of these properties, but the physical characteristics of the hospitality asset as well. The focus of this article is on a tool used to accomplish this need. Through the execution of a property condition assessment (PCA), a stakeholder in a property can position themselves to make better informed decisions regarding the stabilization and disposition of a hotel or resort.

PCA STANDARDS

The generally accepted format for conducting a hotel property condition assessment is identified through the ASTM International Standard E 2018. ASTM International is a standards development organization providing technical standards to a wide array of materials, products, systems, and services. ASTM E 2018 provides guidance for the PCA process and offers consistency to all PCA assignments. Qualified PCA consultants will reference their compliance with ASTM E 2018. The standard also gives guidance on who should perform a PCA. A PCA consultant's qualifications include such factors as experience, training, certification, and professional registration and/or licensure in architecture or engineering. The quality of the hotel PCA is directly related to the hotel and resort experience and competence of the field observer, and the property conditions report reviewer.

PCA SCOPE OF WORK AND OBJECTIVE

A PCA begins with a clearly identifiable scope of work to be performed for a specific assessment. At a minimum, the scope of work includes a walk-through survey, relevant document reviews, and appropriate interviews with people knowledgeable about the subject property. The information gathered is conveyed in a well-written, informative property condition report.

According to ASTM E 2018, the objective of a PCA is to 'observe and report on the physical condition of the subject property.' What a PCA is not is a technically exhaustive, invasive, verification of as-built conditions. Nor is it considered an instrument of service for the practice of architecture or engineering. The PCA provides, at a single moment in time, an assessment opinion of the material condition of the physical improvements based upon accepted observation techniques, data collecting procedures, and written analysis. For the user of the PCA, the end result is knowledge and understanding of the subject asset. This knowledge also

includes where short term capital expenditures need to be allocated, and what long-term expenditures are necessary to stabilize and maintain asset value in these turbulent economic times.

PCA DATA COLLECTION

Three distinct areas of data collection are present in the process for completing a hotel property condition assessment. First, the PCA walk-through survey is a non-invasive visit to the property where the consultant observes the overall condition of the existing subject and its representative building components and systems. Typically conducted in less than a day, the walk-through survey forms the foundation for the PCA data collection. Photographs are taken, notes are compiled, and local interviews are conducted.

Second, the consultant collects and reviews applicable documentation such as as-built construction documents, maintenance manuals and schedules, building department certificates of occupancy, jurisdictional inspection certificates, and other pertinent material. The review of such material is an on-going process throughout the assignment. Review material is typically asked for prior to the consultant conducting field work.

Third, interviews are conducted with the appropriate stakeholders, property managers, property maintenance personnel, and jurisdictional authorities such as the local building inspector and fire marshal. These interviews form one basis of opinions regarding the subject property. The consultant's experience in hotels and resorts provides the other basis of opinion. Once the data is collected, it is analyzed and communicated in a written narrative known as a property condition report.

PROPERTY CONDITION REPORT CONTENT

The property condition report, as the deliverable for a PCA assignment, is structured in a manner that conveys the physical condition of the core areas of the subject property. Initially, the subject improvements are described in general, then a spatial condition analysis is performed.

Considering observed data from the walk-through survey, the major public and private areas are analyzed for their condition. In a typical hotel, this includes public spaces such as lobbies, banquet and meeting rooms, pre-function spaces, restaurants and other food and beverage outlets, business centers, fitness facilities, and indoor pools. Circulation spaces such as corridors and stairwells are analyzed. Private spaces such as guest rooms, suites, and administrative offices are analyzed. Back of house areas including the kitchen, laundry, maintenance rooms, and storage facilities are also analyzed.

Along with the spatial area analyses, the subject property is also analyzed for its individual building systems and components. Common observed elements of the building systems include:

- the exterior grounds system including landscaping, parking, signage, exterior lighting, and outdoor elements such as pools and patios
- the structural system foundation and frame
- the building envelope system including exterior walls, doors, windows, balconies, and roof
- the mechanical, electrical, and plumbing systems

- the conveyance system including elevators and/or escalators
- the life safety system including fire, smoke detection, and sprinkler systems

The accessibility of the property for compliance with the Americans with Disabilities Act (ADA) is another building 'system' that is a part of a property condition assessment. Compliance for the ADA is referenced through the Americans with Disabilities Act Accessibility Guidelines (ADAAG). There are three levels of due diligence regarding an ADA survey which can be performed. At a minimum, a Tier I – Visual Accessibility Survey is incorporated into every PCA. This limited-scope visual survey does not include the taking of measurements or counts. Included within a Tier I Visual Accessibility Survey are observations regarding path of travel, parking, public restrooms, ADA compliant guest rooms, and elevators. Tier II and Tier III ADA surveys are more involved and include the taking of measurements and counts for a more complete and full-scope determination of compliance. The appropriate tier of ADA survey is identified in the basic scope of work for every PCA assignment.

OPINIONS OF PROBABLE COSTS

Based upon the recommended scope of work to remedy physical deficiencies described in both the spatial condition and the system condition portions of the report, a written cost analysis of the repair, replacement, or correction is provided. An opinion of probable cost for the suggested remedy is determined. The consultant will utilize various resources in developing the opinion of probable cost. These sources may include cost data services such as RS Means Costworks, contractor or manufacturer estimates, and/or the consultant's own cost database. The cost analysis is to be used as a budget tool for the subject prior to the engagement of an architect, engineer, and/or contractor. The opinion of probable cost is neither a warranty nor representation of the actual costs that potentially could be incurred, but indicates a magnitude of scale for the expenditure. The opinion of probable cost is broken down into short-term and long-term capital expenditures, separating those immediate conditional concerns from the overall recommendations.

One primary analysis in developing the opinion of probable cost is estimating both the effective age, and the remaining useful life (RUL) of a building component. This analysis is performed on those components with high costs to replace. Typically these components include major equipment (boilers, chillers, PTAC units etc.), or building components such as the roof or exterior skin materials. Information regarding the effective useful life (EUL) is gleaned from the component's manufacturer. The consultant estimates the effective age based upon the installation, current condition, and maintenance level. The effective age is subtracted from the EUL resulting in the RUL. Understanding remaining useful life for replacement costs allows the user to identify necessary capital replacement expenditures at various points in the future.

The opinions of probable costs in a PCA typically are limited to costs that would be provided by a contractor for a specific physical remedy. Costs for design and engineering, management fees, general conditions, indirect costs, and other business related costs may be excluded. If the user is developing a financial pro forma, these costs not identified in the PCA will need to be considered.

SUMMARY

A property condition assessment provides the end user with deeper insight and knowledge as to the relative expenditures necessary for a property to exist as a stabilized asset in the hospitality industry. There are several uses for a PCA. The property condition report can be used by the brokerage community to enhance a listings material offering package. The property condition report can be used by receivers and lenders who want to know more about a certain asset and its physical condition. When combined with an MAI appraisal, the PCA assists in providing a complete picture of the physical, economic, and financial characteristics of an existing hospitality asset for all stakeholders.

Author



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He was formally employed by Cole + Russell Architects, Inc. in Cincinnati. Mr. Hansen received his Bachelor of Architecture from the University of Cincinnati in 1989. He became a licensed architect in 1992 and was invited to membership in the International Society of Hospitality Consultants in 2002. He received a certification in Financial Management of Hotels from Cornell University School of Hotel Administration, Executive Education program, in 2007.

Mr. Hansen offers over 15 years of experience in the hospitality industry and has been the responsible architect on over 65 hotels and conference centers of various brands, including full-service, extended-stay, select-service and economy chain scales. Mr. Hansen has worked with various major hotel company corporate offices and has extensive knowledge of brand criteria.

As a 15 year hospitality consultant with a foundation in consulting, architecture, financial management, and appraisal theory, Mr. Hansen brings well rounded expertise to various H&LA assignments and assists H&LA clients with their pre-development, consulting, and valuation needs.

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